

FEDERAL HOME LOAN BANK OF DALLAS

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January 15, 2004

Ms. Elaine L. Baker  
Secretary to the Board  
Federal Housing Finance Board  
1777 F Street, N.W.  
Washington, D.C. 20006

Re: Request for Comment: Registration by Each Federal Home Loan Bank of a Class  
of its Securities under the Securities Exchange Act of 1934

Dear Ms. Baker:

The Federal Home Loan Bank of Dallas (Dallas Bank) appreciates the opportunity to comment on the Federal Housing Finance Board's (Finance Board's) proposed regulation requiring each Federal Home Loan Bank (FHLBank) to voluntarily register a class of its securities with the Securities and Exchange Commission (SEC) under the provisions of Section 12(g) of the Securities Exchange Act of 1934 (Exchange Act).

Like the Finance Board, the Dallas Bank believes it is appropriate for and incumbent upon the FHLBanks to provide full, complete, and transparent disclosures to their stockholders, to the holders of FHLBank consolidated obligations, and to the public in accordance with the highest industry standards. However, the Dallas Bank has had reservations about the application of SEC rules that are designed for companies with publicly traded stock to the cooperatively owned FHLBanks whose stock can be held only by members and can be purchased, repurchased, redeemed and transferred only at its par value.

Although the Dallas Bank believes that there may be other ways to accomplish the objective of state of the art disclosure for the FHLBanks that might better fit the unique cooperative ownership and corporate governance structure that Congress created, the Bank's Board of Directors adopted a resolution in September 2003 that said, in pertinent part:



“The FHLBank Presidents Conference should continue to analyze on behalf of the FHLBanks the business and critical accounting issues associated with SEC registration;

“At such time as the business and critical accounting issues and necessary accommodations are resolved and documented, the Finance Board should adopt a regulation that sets forth requirements for registration with the SEC.”

In keeping with that resolution, the Dallas Bank has participated with eight other FHLBanks in a Task Force on Enhanced Disclosure to identify and work with the SEC to resolve the most critical threshold issues related to SEC registration. To date, we believe the Task Force has made significant progress. Working constructively together, the Task Force and the SEC have resolved a number of important accounting and disclosure issues, and have discussed other issues that still require additional consideration.

At this time, the Dallas Bank intends to move forward individually to resolve the remaining issues with the SEC in anticipation of preparing financial statements consistent with SEC requirements beginning with its year-end 2004 financial reports. However, we believe that most of the issues the Dallas Bank has identified must be resolved in a consistent manner for all FHLBanks, and we intend to coordinate our efforts with the other FHLBanks as this process moves forward.

The Dallas Bank does not anticipate or expect that the FHLBanks would be granted exceptions to Generally Accepted Accounting Principles (GAAP), or exemptions from the substantive components of relevant disclosure guidelines. However, we believe it is important that the remaining issues be resolved in a manner that recognizes and accommodates the unique cooperative ownership, corporate governance and capital stock characteristics that Congress created for the FHLBanks. This will ensure that the requirements of an enhanced disclosure regime serve their intended purpose, but neither impose an undue burden on the FHLBanks or their members, nor impair the FHLBanks' ability to fulfill their important public policy purpose.

Prior to making a final decision to register with the SEC, the Dallas Bank believes the FHLBanks and the SEC should complete the process of resolving the various issues that such registration raises. This process should include not only those issues that have been or are being discussed with the SEC through the Task Force, but also the manner in which a variety of disclosure rules would be applied to the FHLBanks' unique situation. The Dallas Bank has identified the following issues, among others, that should be resolved prior to a decision being made about the appropriateness of SEC registration.

- Applicability of the security ownership reporting rules of Section 13 of the Exchange Act to members that own more than five percent of a FHLBank's capital stock.



- Applicability of the insider trading rules contained in Section 16 of the Exchange Act for financial institution members represented on a FHLBank's board of directors.
- Applicability of related party disclosure requirements for advances, capital stock and other routine transactions entered into in the normal course of business between a FHLBank and member institutions represented on its board of directors (as distinguished from other types of transactions between a FHLBank and members or their affiliates).
- Applicability of the proxy rules contained in Section 14 of the Exchange Act in light of statutory restrictions on shareholders' voting rights and the regulatory prohibition against management involvement in the director election process.
- The manner in which the SEC's Regulation FD should be applied to the FHLBanks in light of the relationship between capital stock purchases and the FHLBanks' primary advances business.
- Applicability of current and proposed rules requiring disclosures of unregistered sales of securities under the Securities Act of 1933 (e.g., sales of FHLBank capital stock).
- Applicability of proposed 8-K reporting rules regarding direct and contingent financial obligations (such as Consolidated Obligations issued on behalf of a FHLBank or other FHLBanks).
- Applicability of Guide 3 disclosure requirements for bank holding companies.
- Applicability and timing of "accelerated filer" requirements (including the timing of requirements to comply with Section 404 of the Sarbanes-Oxley Act of 2002).
- Documentation of any exceptions, accommodations, exemptions or other agreements between the FHLBanks and the SEC.

Once these issues have been resolved, a decision about whether it is appropriate for the FHLBanks to register with the SEC can be made. If SEC registration is determined to be the appropriate course of action, the Dallas Bank believes the Finance Board should promulgate a regulation requiring each FHLBank to register a class of its securities under the Exchange Act. To allow sufficient time for the outstanding issues to be resolved and for the FHLBanks to make appropriate preparations, SEC registration should not be required prior to the deadline for filing the FHLBanks' financial reports for the year ending December 31, 2004.



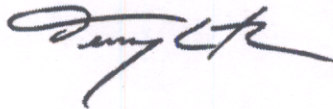
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If a final regulation is promulgated, the Dallas Bank suggests that the Finance Board clarify more fully its role in the FHLBanks' financial reporting and disclosure regime. For instance, the preamble to the proposed regulation states that the Finance Board will continue to oversee the FHLBanks' combined reports in consultation with the SEC. It is not clear what form this consultation will take.

In addition, Section 998.1 (b) of the proposed regulation states that the registration requirement does not limit or restrict the Finance Board's ability to carry out its responsibilities to act under its safety and soundness authority or to ensure the FHLBanks' continued access to the capital markets. The Dallas Bank believes that a final regulation should articulate how the Finance Board would intend to resolve any conflicts that might arise between SEC requirements and either the FHLBanks' safety and soundness or their ability to access the capital markets.

As noted previously, the Dallas Bank concurs with the Finance Board's desire that the FHLBanks practice state of the art financial reporting and disclosure, and we stand ready to work with the Finance Board, the SEC and the other FHLBanks to identify the most appropriate way to achieve that objective.

Sincerely,

A handwritten signature in black ink, appearing to read "Terry Smith", with a stylized flourish at the end.

Terry Smith

cc: FHLBank of Dallas Board of Directors